Office of the Legislative Auditor

State of Montana

Report to the Legislature

March 1995

Financial-Compliance Audit

For the Two Fiscal Years Ended June 30, 1994

Department of Corrections and Human Services

This report contains 21 recommendations to the Department of Corrections and Human Services. These recommendations concern:

- **Calculation and submission of Medicaid per diem billing rates.**
- **Compliance with federal and state laws and regulations.**
- **Responsibility for residents' property held by the department.**

Direct comments/inquiries to:
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FINANCIAL-COMPLIANCE AUDITS

Financial-compliance audits are conducted by the Office of the Legislative Auditor to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations which could have a significant financial impact. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States General Accounting Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

The Single Audit Act of 1984 and OMB Circular A-128 require the auditor to issue certain financial, internal control, and compliance reports regarding the state's federal financial assistance programs, including all findings of noncompliance and questioned costs. This individual agency audit report is not intended to comply with the Single Audit Act of 1984 or OMB Circular A-128 and is therefore not intended for distribution to federal grantor agencies. The Office of the Legislative Auditor issues a statewide biennial Single Audit Report which complies with the reporting requirements listed above. The Single Audit Report for the two fiscal years ended June 30, 1993 has been issued. Copies of the Single Audit Report can be obtained by contacting:

Office of the Legislative Auditor
Room 135 State Capitol
PO Box 201705
Helena MT 59620-1705

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Financial-Compliance Audit
For the Two Fiscal Years Ended June 30, 1994

Department of Corrections and Human Services

Members of the audit staff involved in this audit were Laurie Evans, Cindy S. Jorgenson, Wayne Kedish, Victoria Murphy, Paul J. O'Loughlin, and Vickie Rauser.

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Office of the Legislative Auditor

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March 1995

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Department of Corrections and Human Services for the two fiscal years ended June 30, 1994. Included in this report are recommendations concerning compliance with federal regulations, calculation and submission of per diem billing rates, fiduciary responsibilities for residents' property, and the department's fixed assets. The department's written response to audit recommendations is included at the end of the audit report.

We thank the director and his staff for their assistance and cooperation throughout the audit.

Respectfully submitted,

Scott A. Seacat
Legislative Auditor

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Appointed and Administrative Officials

Central Operations	Rick Day, Director Sally Johnson, Deputy Director Bill Furois, Administrator, Management Services Division		
Board of Pardons			Term Expires
	John Thomas	Chairman	1/2/97
	David Hoffman	Member	1/2/95
	Patrick Fleming	Member	1/2/97
	Julene Kennerly	Member	1/2/97
	Craig Thomas	Executive Secretary	
Corrections Division	(Vacant), Administrator Myron Beeson, Warden, Bureau I, Montana State Prison Mike Mahony, Warden, Bureau II, Montana State Prison Mike Ferriter, Bureau Warden, Probation and Parole Dan Maloughney, Superintendent, Swan River Correctional Treatment Center Steven MacAskill, Superintendent, Women's Correctional Center		
Mental Health Division	Dan Anderson, Administrator Dr. Carl Keener, M.D., Medical Director, Montana State Hospital Keith Wilson, Business Services Director, Montana State Hospital Ron Balas, Superintendent, Center for the Aged		
Alcohol and Drug Abuse Division	Darryl Bruno, Administrator Roland Mena, Director, Montana Chemical Dependency Center		
Special Services Division	Robert W. Anderson, Administrator Jennifer Pryor, Superintendent, Montana Developmental Center Sylvia Hammer, Superintendent, Eastmont Human Services Center M. Patrick Estenson, Superintendent, Montana Veterans' Home		

This listing below serves as a means of summarizing the recommendations contained in the report, the department's response thereto, and a reference to the supporting comments.

Summary of Recommendations

Introduction and Scope of Audit

We performed a financial-compliance audit of the Department of Corrections and Human Services for the two fiscal years ended June 30, 1994. The objectives of the audit were to:

1. Review the department's control systems and make recommendations for the improvement of management and internal controls of the department.

2. Determine if the department complied with applicable state and federal laws and regulations.

3. Determine if the department's financial schedules present fairly, in accordance with state accounting policy, the results of operations for the audit period.

4. Determine implementation status of recommendations from the prior audit.

This report contains 21 recommendations to the department. Areas of concern deemed not to have a significant effect on the successful operation of department programs are not specifically included in the report, but have been discussed with management. In accordance with section 5-13-307, MCA, we analyzed and disclosed the cost, if significant, of implementing the recommendations in this report.

Background

Central Operations

Central Operations of the department consists of the Director's Office, Management Services Division, and the Board of Pardons. The Director's Office provides the policy making, legal, clerical, and personnel support for the department. The Management Services Division provides policy direction, control and support to the department in the areas of budgeting, accounting, payroll, property and supply management; federal and third party reimbursements; and computer information systems. The Board of Pardons, which is attached to the department for administrative purposes only, oversees Montana's inmate parole and furlough programs. The board also reviews

requests for executive clemency and makes recommendations to the Governor concerning those requests.

Corrections

The Corrections System provides for the administration, management, and coordination of adult correctional services in Montana. The system includes an operations staff which provides overall supervision, direction and guidance for Montana's adult correctional system, which also encompasses the Probation and Parole Bureau, the Pre-Release Center Unit, Industries and Vocational Training, and Adult Institutional Service components. The Probation and Parole Bureau provides regular probation and parole supervision services in five regions, intensive supervision services which operate as community-based alternatives to incarceration in four regions, and the supervised release program which allows community supervision of qualifying residents. The Pre-Release Center Unit oversees the operations of six private non-profit pre-release centers. Two of these offer programming for both male and female offenders, and provide a live-out/day reporting program (Butte and Billings). The pre-release centers also serve offenders who have been sentenced to the department for appropriate placement, rather than directly to prison. The Industries and Vocational Training components include ranch and dairy, prison industries, and vocational training, all housed at Montana State Prison. The Adult Institutional Services component consists of:

1. Montana State Prison at Deer Lodge which provides facilities for the custody, treatment, training and rehabilitation of adult male criminal offenders. Initially established as a federal prison in 1873, the prison facilities were transferred to the state when Montana was granted statehood in 1889.

2. The Women's Correctional System, previously located on the Montana State Hospital campus, was relocated to Billings in September 1994. The women's system provides facilities for the custody, treatment, training and rehabilitation of adult female criminal offenders.

3. Swan River Correction Training Center is a military-style boot camp for residents who are 18 to 35 years of age. The program is 90-120 days of physical and mental discipline with constant supervision, intensive counseling, education,

and self-esteem programming components. The program was established in July 1993.

Mental Health

The Mental Health System provides treatment, rehabilitation and support services for psychiatrically disabled persons. The system consists of three components: 1) the operations component that provides management and coordination of the entire system, including the multi-agency Managing Resource Maintenance Program for severely emotionally disturbed youth, 2) the community mental health services component which provides community-based services to children and adults throughout Montana by five regional community mental health centers, and 3) the inpatient services component. Inpatient services are provided by two institutions:

1. The Montana State Hospital, located at Warm Springs, provides psychiatric evaluation, psychiatric treatment, and rehabilitation services for adults who are severely mentally ill.

2. The Center for the Aged at Lewistown is a long-term care facility for older people who are experiencing a mental disability requiring a level of care not otherwise available in the community. Residents must be at least 55 years of age and not in need of intensive psychiatric care.

Chemical Dependency

The Chemical Dependency System is responsible for all major management functions for state chemical dependency prevention and treatment services. The system is composed of an operations component to administer statewide chemical dependency services, a community services component to assist publicly supported chemical dependency services in Montana communities, and the residential services component which consists of the Montana Chemical Dependency Center at Butte. The Montana Chemical Dependency Center provides inpatient chemical dependency services and medically monitored detoxification services.

Special Services

The Special Services System, which consists of the Developmental Disability program and the Veterans' Nursing Home program, supervises three institutions:

1. The Montana Developmental Center at Boulder is an intermediate care facility which provides individualized treatment for developmentally disabled individuals.

2. Eastmont Human Services Center at Glendive is an intermediate care facility which provides care and training programs for developmentally disabled persons.

3. The Montana Veterans' Home at Columbia Falls provides domiciliary and nursing care for honorably discharged veterans and their spouses who are unable to earn a livelihood by reason of such service or because of age.

The department has started construction on the 80-bed Eastern Montana Veterans' Home in Glendive. Construction is projected to be completed by June 1, 1995. The department has contracted with the Glendive Medical Center to operate the nursing home.

Average populations of the department's facilities in the past five fiscal years are shown in the table on page 5.

Table 1

Department of Corrections and Human Services
Average Daily Population

	Fiscal Year 1989-90	1990-91	1991-92	1992-93	1993-94
Corrections System:					
Alternative, Inc., Billings[1]	30.32	33.05	31.95	47.31	60.42
Billings Life Skills Center[7]	11.59	11.92	9.27	10.70	7.29
Butte Pre-release Center[1]	34.26	35.50	36.14	58.09	78.47
Great Falls Pre-release Center[1]	32.24	39.13	38.31	46.24	52.15
Missoula Pre-release Center[1]	N/A	N/A	N/A	N/A	2.04
Missoula Life Skills Center[7]	24.76	24.89	25.06	26.30	20.89
Women's Correctional Center	53.28	58.20	62.60	54.48	41.95
Probation and Parole	3,494.00	3,797.00	4,175.00	4,593.00	4,769.92
Intensive Supervision Program	29.40	45.00	42.00	53.80	77.17
Montana State Prison	1,097.24	1,140.15	1,192.13	1,181.33	1,189.11
Swan River Forest Camp[3]	52.31	57.41	55.26	43.26	N/A
Swan River Corr. Trng. Center[3]	N/A	N/A	N/A	N/A	28.52
Total	4,859.40	5,242.25	5,667.72	6,114.51	6,327.93
Mental Health System:					
Center for the Aged	152.04	142.79	141.73	134.63	132.30
Warm Springs and Galen Campus	377.72	362.60	340.88	267.70	202.69
Total	529.76	505.39	482.61	402.33	334.99
Chemical Dependency System:					
Galen Campus[4]	77.53	78.90	72.70	65.33	N/A
MCDC Butte[5]	N/A	N/A	N/A	N/A	68.27
Total	77.53	78.90	72.70	65.33	68.27
Special Services System:					
Developmental Disability Program:					
Eastmont Human Services Center	54.09	53.46	51.16	48.57	48.90
Montana Developmental Center	181.05	153.33	123.33	109.16	112.21
Total	235.14	206.79	174.49	157.73	161.11
Veterans' Nursing Home Program:					
Montana Veterans' Home	123.84	122.34	118.26	121.38	118.25
Total	123.84	122.34	118.26	121.38	118.25
Average Daily Caseloads for Community Services:[2]					
Mental Health Community Serv.	6,841.00	6,659.00	6,703.00	7,376.00	8,420.00
Alcohol and Drug Community Serv.[6]	1,562.00	1,708.00	1,679.00	1,391.00	1,327.00
Total	8,403.00	8,367.00	8,382.00	8,767.00	9,747.00
TOTAL DEPARTMENT	14,228.67	14,522.67	14,897.78	15,628.28	16,757.55

[1] Facilities operated under contract with the dept. The Missoula Pre-release Ctr. opened in late FY94.

[2] Figures reflect open caseloads on last day of fiscal year.

[3] Swan River ceased operating as an incarceration facility at the end of FY93 and began operating as a Boot Camp in FY94.

[4] Galen Campus was closed at the end of FY93.

[5] Montana Chemical Dependency Center (MCDC) was opened in Butte in FY94.

[6] Alcohol and Drug Abuse Division Community figures do not include family members in treatment.

[7] Billings and Missoula Life Skill Centers were privatized in FY94.

Source: Compiled by the Department of Corrections and Human Services.

The following table shows the department's budgeted employment in number of full-time equivalent employees for fiscal years 1992-93 and 1993-94.

Table 2

Department of Corrections and Human Services
Full-Time Equivalent (FTE) Employees

	1992-93 Budgeted	1993-94 Budgeted
Central Operations		
Director's Office	12.00	11.00
Management Services Division	26.00	29.00
Board of Pardons	5.00	5.00
Total	43.00	45.00
Corrections System		
Men's Correct./Central Office	89.00	113.00
Women's Correct./Central Office	39.85	40.35
Montana State Prison	469.51	434.11
Swan River Forest Camp	26.83	N/A
Swan River Correct. Training Center	N/A	19.50
Total	625.19	606.96
Mental Health System		
Central Office	5.00	5.00
Montana State Hospital	673.21	518.81
Center for the Aged	108.17	118.17
Total	786.38	641.98
Chemical Dependency System		
Central Office	6.00	8.00
Galen Campus	54.65	N/A
Montana Chemical Dependency Center	N/A	49.56
Total	60.65	57.56
Special Services System		
Central Office	1.00	2.00
Montana Developmental Center	354.31	354.31
Eastmont Human Services Center	105.12	105.87
Montana Veterans' Home	85.89	85.89
Total	546.32	548.07
TOTAL DEPARTMENT	2,061.54	1,899.57

Source: Compiled by the Department of Corrections and Human Services

Prior Audit Recommendations

We performed the audit of the department for the two fiscal years ended June 30, 1992. The report contained 22 recommendations applicable to the department and one applicable to the Department of Social and Rehabilitative Services. Of these recommendations, the department implemented 11, partially implemented five and did not implement three. Three of the recommendations are no longer applicable. We reviewed the status of the recommendation applicable to the Department of Social and Rehabilitation Services (SRS). We determined SRS improved the timeliness in completing medicaid cost settlements; therefore, we make no further recommendation at this time.

The issues we discuss in this report related to prior audit recommendations not implemented include: billing for services (page 8), theft reporting (page 36), and property insurance costs (page 12). Issues related to those of the partially implemented recommendations included in this report are: equipment records (page 14), internal controls over resident accounts (page 25), and property held in trust (page 28). Partially implemented recommendations related to unreported services, and prison industry rules have been discussed with management and are not included in this report.

The following report sections use these abbreviations for the facilities under discussion.

MSP - Montana State Prison
WCC - Women's Correctional Center
SRCTC - Swan River Correctional Training Center
MSH - Montana State Hospital
CFA - Center for the Aged
MCDC - Montana Chemical Dependency Center
MDC - Montana Developmental Center
EHSC - Eastmont Human Services Center
MVH - Montana Veterans' Home

Reimbursements

Background

State law requires the department to collect and process the care and maintenance and other ancillary services payments for the care of residents at each facility. The department collects reimbursement revenue from residents or financially responsible parties, insurance companies, the U.S. Veterans' Administration, Medicaid, and Medicare. The department recorded the following revenues for services rendered to residents.

Table 3
Department of Corrections and Human Services
Reimbursement Revenue

Facility	Fiscal Year 1992-93	Fiscal Year 1993-94
Montana Developmental Center	$ 7,194,266	$ 8,882,806
Montana State Hospital	3,062,376	2,326,103
Montana Center for the Aged	2,414,600	2,605,759
Eastmont Human Services Center	1,922,524	2,633,465
Montana Veterans' Home	1,266,857	1,382,427
Montana Chemical Dependency Center	0	79,472
Total	$15,860,623	$17,910,032

Source: Compiled by the Office of the Legislative Auditor from the Statewide Budgeting and Accounting System.

The various facilities provide the central office with care information, days of residency, and information concerning other services provided to residents or patients. This information is

input to the department's Management Information System (MIS). Each month the MIS accumulates the services by resident and provides an itemized statement of charges for each resident.

Department personnel in Helena review the monthly statements and bill appropriate responsible parties. The MIS tracks the services billed and payments received and provides accounts receivable information by resident. The department has four ledger types: Medicaid, Medicare, insurance, and resident or financially responsible party. If one resource denies payment, the unpaid service is removed from that ledger and entered on the next available ledger until all eligible sources have been billed.

MDC, EHSC, and the Long-Term Care Unit at MSH are classified as cost-based facilities under the Medicaid program. These facilities receive federal Medicaid payments at a cost-based rate for care and maintenance of eligible residents. The department pays its costs of operations for cost-based facilities from the General Fund and bills the Department of Social and Rehabilitation Services (SRS) for Medicaid payments. SRS establishes an interim daily rate for each facility based on budget information provided by each facility before the start of each fiscal year. Actual payment rates are finalized when facilities submit final cost reports at fiscal year-end and SRS audit staff perform desk reviews and settle on the reports. We identified several concerns related to the established interim rates.

MSH Interim Per Diem Rates

Department Physicians

In the prior audit we determined cost reports for the Long-Term Care Unit at MSH did not include any physician (primary care physicians and psychiatrists) salaries in the interim per diem rate for Medicaid reimbursement. Based on discussions with MSH and central office personnel, we determined the department has made no changes to ensure the allowable portion of physicians' salaries were included in the interim per diem rates for fiscal years 1992-93 and 1993-94. According to federal regulations, costs of physician services not directly related to services

provided to individual residents are allowable costs of providers such as MSH. MSH personnel completed a time study for the long-term care unit psychiatrist. Approximately 15 percent of the psychiatrist's time is spent providing indirect care which qualifies for inclusion in the per diem rate. We estimate an additional $19,900 could have been included in the fiscal year 1993-94 per diem rate for services provided by the long-term care unit psychiatrist. This would have increased the per diem rate from $158.33 to $159.42 for the year. Similar estimates were not available for the long-term care unit primary care physician.

Based on discussions with central office personnel, these salaries can be properly allocated between per diem and direct billings by using available statistics on the billings for services provided by physicians. MSH could recover additional physician costs by working with the central office to ensure indirect services provided by the psychiatric and primary care physicians are included in the hospital's per diem cost rate.

Department Psychologists and Social Workers

During the current audit, we determined MSH includes both licensed and unlicensed psychologist and social worker salaries in its per diem calculation. MSH appropriately includes unlicensed social worker and psychiatrist salaries in the per diem rate. Central office policy requires the salaries for any licensed psychologists and social workers providing services in the long-term care unit to be excluded from the per diem rate. These services are to be direct billed. Currently, licensed psychologists and social workers do not maintain a written account of services provided. A written account is necessary for direct billing purposes. Consequently, these services are not billed and per diem rates are not established in accordance with central office policy. We were unable to estimate the potential recovery from direct billing services provided by licensed psychologists and social workers. We were also unable to determine the effect on the per diem rate at MSH. We believe MSH personnel and central office staff should develop procedures to ensure the daily rate is calculated in accordance with central office policy. In addition, MSH personnel should maintain a written account of services provided for direct billing purposes.

Occupational Therapist Services Not Direct Billed

We determined MSH personnel do not direct bill services provided by licensed occupational therapists. Central office policy requires these services be direct billed and the related salaries and benefits be excluded from the per diem rate. The salary and benefits for the MSH licensed occupational therapists are approximately $39,500. We were unable to determine what percentage of this cost could be direct charged to Medicaid or other responsible payor parties. Central office personnel stated these services are not direct billed because MSH does not provide the documentation required to bill the services. The central office should require MSH personnel to provide appropriate documentation so occupational therapist direct services can be billed.

Untimely Rate Submission

Before the start of each fiscal year, the cost-based facilities, such as MSH, prepare an estimated Medicaid interim daily rate based on budgeted expenditures for the fiscal year. Department policy requires the facilities to submit this information to the central office by June 30 each year to ensure timely submission to the SRS Medicaid Services Bureau. The rates submitted to SRS are subject to review by SRS personnel. This review may result in approved interim rates different than each facility's estimated interim daily rate.

We reviewed the fiscal year 1992-93 and 1993-94 Medicaid interim rate proposals submitted to the central office. MSH personnel did not submit the fiscal year 1992-93 proposals to the central office until November 1992. We determined the SRS Medicaid Services Bureau did not approve an interim rate for this facility in fiscal year 1992-93. As a result, fiscal year 1992-93 Medicaid per diem services were billed at the 1991-92 interim rate of $118.54 rather than the proposed per diem rate of $130.35. We estimate this resulted in the untimely collection of $84,729 and lost interest earnings to the General Fund of $4,504 for fiscal year 1992-93.

We determined MSH submitted the fiscal year 1993-94 interim rate proposal in August 1993. The Medicaid Services Bureau approved this interim rate in September 1993. MSH submitted the fiscal year 1994-95 interim proposal in a timely manner.

Based on discussion with MSH personnel, time constraints and work load prevented more timely submission of the interim rate proposals. Central office personnel indicated they are responsible for ensuring SRS approves the interim rates, but overlooked the lack of an approved interim rate for 1992-93. To address workload concerns the department could provide cross-training to MSH personnel. This would provide the facility with greater flexibility in meeting its workload and should ensure timely submission and subsequent approval of interim per diem rates.

Recommendation #1

We recommend the department establish procedures to ensure:

A. The MSH interim daily rate is properly calculated and submitted to the central office in a timely manner.

B. All allowable direct services provided are billed to the extent possible.

Property, Plant and Equipment

Insurance on Vacant Buildings

Each year state agencies are required to gather information on buildings under their control. The information includes building use, contents, and square footage. The Department of Administration's, Risk Management and Tort Defense Division (Risk Management) uses this data to determine property insurance charges. Beginning in fiscal year 1993-94, Risk Management set the property insurance rates for buildings and contents based on the building's structure, square footage, and whether the building is in use, vacant or abandoned.

In our prior audit report we recommended the department eliminate property damage insurance on abandoned buildings. Property insurance is still maintained on these buildings. The department currently spends approximately $18,000 a year in insurance premiums for 20 buildings slated for demolition. These buildings are currently insured for an approximate value of $26 million. There are buildings on the MDC, MSH and MVH campuses the department has no plans to use or restore. These buildings are unusable, deteriorating, and are not maintained. The department has requested in its Long Range Building proposal to have these buildings demolished because the buildings have no future value to the state. Insuring buildings scheduled for demolition is not a wise use of state resources. The department should work with Risk Management to remove these buildings from state insurance coverage.

Department personnel incorrectly reported the square footage for one of the buildings discussed above. They reported 156,648 square feet when in actuality the building's area is approximately 13,054 square feet. The building is scheduled for demolition but is used for storing broken/unusable equipment waiting for disposal. Since insurance rates were established based on square footage, we estimate the department paid ten times too much to insure this storage building for fiscal years 1993-94 and 1994-95. Department personnel indicated the square footage for this storage building has been incorrectly reported to Risk Management for years. The department should periodically review the information provided to Risk Management for reasonableness.

Recommendation #2

We recommend the department:

A. Ensure building information, including building content, use and square footage, is accurately reported to the Department of Administration, Risk Management and Tort Defense Division.

B. Work with the Department of Administration to ensure insurance coverage on buildings is reasonable and necessary.

Equipment Records

In our prior audit report we recommended the department assign individual property numbers to fixed assets as required by state accounting policy. During our audit work at MSP, industries training program, staff indicated the equipment in question in our prior audit had still not been issued individual property numbers. That equipment consists of a central computer processing unit, five computer work stations, and two printers all recorded under one property number.

State accounting policy requires the department to assign individual property numbers to each fixed asset with a value in excess of $1,000. By issuing property numbers to individual items the department can establish more effective control over fixed assets and readily identify items if they are moved from one location to another.

Personnel indicated equipment has been installed but individual numbers were not assigned because the computers remain in one location and are not being moved around. A staff person said they plan to issue individual numbers by the end of fiscal year 1994-95. We noted the equipment purchases in the MSP ranch and industries program for fiscal year 1993-94 have all been issued individual property numbers.

Recommendation #3

We recommend the department continue its efforts to assign individual property numbers to fixed assets as required by state accounting policy.

Federal Compliance

The department receives financial assistance from several federal agencies including the U.S. Departments of Health and Human Services, Justice, Education, Agriculture, and Veterans Affairs. During fiscal year 1993-94 the department spent approximately $8 million relating to federal programs. We performed tests to determine the department's compliance with selected federal regulations. We identified the following areas where the department could improve procedures to comply with federal regulations.

Time and Effort Reporting

OMB Circular A-87 governs the allowability of charges to federal programs with the exception of the Alcohol and Drug Abuse and Mental Health Services (ADMS) block grant. The ADMS block grant has specific federal regulations that define allowable charges. OMB Circular A-87 states when employees work on multiple activities or cost objectives, a distribution of their salary or wages to a federal assistance program must be supported by personnel activity reports, commonly referred to as time and effort reports. Federal regulations over the ADMS block grant do not specifically require time and effort reporting. These regulations define allowable charges as those charges that are reasonable and for the benefit of substance abuse and mental health services.

We identified two employees at the central office and one employee at MSP who work on more than one activity. For the two instances at the central office the employees worked on both state and federal assistance programs but their full salaries were charged to the federal assistance programs. At MSP the

employee worked on two federal grants. The charges to each grant varied based on the amount of grant money in relation to the employee's total salary. The department did not properly charge the salaries to appropriate programs because the employees did not complete time and effort reports. Personnel indicated they were not aware of the time and effort federal reporting requirement.

We question the following federal charges during fiscal year 1992-93 and 1993-94:

Federal Source	Fiscal Year 1992-93	Fiscal Year 1993-94
Alcohol and Drug Abuse and Mental Health Services Block Grant (CFDA #93.992)	$19,544	
Adult Basic Ed (CFDA #84.002)	11,845	
Chapter 1 (CFDA #84.010)	7,722	
Community Youth Activity Project (CFDA #93.171)		$25,999

The department should establish a system to track time and effort for the purpose of supporting personal services charged to federal assistance programs.

Recommendation #4

We recommend the department charge personal services costs based on actual time and effort spent on federal assistance programs.

Specific Compliance Requirements

The department receives the Alcohol and Drug and Mental Health (ADMS) block grant (CFDA #93.992) from the federal government. The federal government has set forth spending requirements for this grant. A portion of the grant is designated for substance abuse and a portion is designated for mental health services. Of the amount allocated for substance abuse, at least 35 percent must be used for alcohol activities, at least 35 percent for drug abuse activities, and at least 20 percent for prevention and early intervention prevention activities.

We reviewed the allocation of the 1992 ADMS block grant, which covers April 1992 through March 1993, to determine if the department complied with grant requirements. We noted the department complied with the allocation requirements for drug abuse and alcohol activities but did not spend enough on prevention. The department should have spent $461,385 on prevention. The department spent $443,532 on prevention through contracts with various providers. The department reported it had one employee whose primary duties were prevention and added the employee's full salary and benefits of $30,870 to the amount spent through contracts to meet the percentage requirements.

Department personnel estimated the employee actually spent only 45 percent of the time on the ADMS block grant. After reducing the salary allocation, we determined the department had not met the requirements of the ADMS block grant. When we brought this to the attention of management, personnel moved the employee's entire salary to the General Fund and made additional payments to contractors. With this adjustment the department is now in compliance with the federal regulations.

Recommendation #5

We recommend the department establish controls to ensure it spends the ADMS block grant as required by law.

Maintenance of Effort

MDC receives federal assistance from the ESEA Chapter 1 (Elementary and Secondary Education Act) program (CFDA #84.010) through the Office of Public Instruction. The objective of this program is to meet the special educational needs of educationally deprived children in school attendance areas with children from low income families. One requirement that must be met to receive these funds is the receiving agency must spend (from nonfederal sources) at least 90 percent of the funds spent

the previous year on free and public education, unless it receives a waiver from the grantor. We reviewed MDC's calculations to determine whether it maintained the effort as required by federal regulations.

MDC should have spent at least $64,045 in each of fiscal years 1990-91 and 1991-92 to meet the required maintenance of effort. MDC spent $32,394 in fiscal year 1990-91, and $37,515 in fiscal year 1991-92. Therefore, MDC was not eligible to receive Chapter 1 funds in fiscal year 1992-93 and we question the full grant award of $3,350. Department personnel indicated they do not intend to request Chapter 1 funds in the future.

Recommendation #6

We recommend the department:

A. Comply with the federal requirements related to ESEA Chapter 1.

B. Work with the Office of Public Instruction to ensure MDC resolves the questioned costs for the 1992-93 ESEA Chapter 1 award.

Administrative Cost Recoveries

Federal regulations allow state agencies reimbursement for indirect costs related to the administration of federal grants. Section 17-3-111, MCA, requires state agencies to recover indirect costs to the fullest extent possible. Recovery of indirect costs may reduce the amount of state money required to support federal programs. The following two sections discuss areas where the department could improve controls over the recovery of indirect costs.

Indirect Cost Calculations

Each state fiscal year the department prepares an indirect cost rate proposal which is submitted to the federal government for approval. The federal government approved a 10.1 percent and an 8 percent rate in fiscal years 1992-93 and 1993-94,

respectively, for the department. We reviewed six grants to determine whether the department properly charged indirect costs to grants.

Federal regulations state that when a grant crosses state fiscal years the indirect cost rate for that grant changes to the new rate regardless of the rate in existence at the time the grant was awarded. We noted the department was using old indirect cost rates for four of the grants. Since the indirect cost rates have been decreasing the department overcharged the federal government. We also noted the department did not correctly apply the current year's indirect cost rate. Based on these errors we question the following charges in fiscal year 1992-93:

Catalog of Federal Domestic Assistance Number	Grant Description	Amount Questioned
93.226	Mental Health - Human Resource Development	$2,743
93.242	Mental Health - Data Grant	791
93.125	Child Adolescence Support Services Project	917
93.171	Community Youth Activities Project Block Grant	2,683
93.179	Alcohol and Drug Abuse Division - Data Grant	4,426

Department personnel correctly charged indirect costs in fiscal year 1993-94.

Recommendation #7

We recommend the department apply indirect cost rates in accordance with federal regulations.

Administrative Allowance

The ADMS block grant (CFDA #93.992) allows the recipient to use up to 5 percent of grant funds for administrative costs. The amount of the funds available for the program costs is decreased by the amount used for administrative costs. Based on the grant award, the department could have charged up to $176,155 in fiscal year 1992-93. The department charged only $49,775.

Through discussions with personnel we determined the department charged the grant for two people who worked directly on

the grant. The department did not charge the grant for any costs indirectly related to the administration of the grant. Department personnel indicated they could be charging more administrative costs to the grant.

Recommendation #8

We recommend the department implement procedures to ensure administrative costs are recovered to the fullest extent possible.

Supplemental and Social Security Income

The majority of residents at the MDC receive Social Security (SSA) and Supplemental Security Income (SSI). The federal government pays SSA each month for the previous month. When an SSA recipient dies during the month, the estate does not collect SSA for that month. SSI is paid at the beginning of the month for that month. SSI recipients dying during the month are still eligible to receive that month's SSI.

We reviewed the files of all eight residents who died at MDC between July 1, 1992 and September 31, 1994. We noted one resident died June 30, 1993 and had received SSA for June on July 2, 1993. MDC did not return the $468 to SSA even though personnel knew that patient should not have received the payment. We also noted one patient died March 12, 1993 and received $30 of SSI for the month of April on April 1, 1994. Again MDC did not return the payment. In both instances MDC used the money to help cover the costs of funeral arrangements.

Personnel indicated they only return SSI and SSA payments if the federal government specifically requests them to do so. Keeping money, knowing the residents are not entitled to the receipts, constitutes fraud based on the definition set forth by the federal government. We notified the Attorney General, the Governor's Office and the Social Security Administration as required by state law and federal regulations. Since that time,

the department has returned $468 to the federal government and intends to return the remaining $30. The department should ensure employees comply with the SSA and SSI regulations.

Recommendation #9

We recommend the department comply with federal regulations regarding SSA and SSI.

General Requirements

There are several general compliance requirements applicable to all federal financial assistance programs. Recipients of federal funds are required to establish controls to ensure compliance with these requirements. Failure to follow these requirements could adversely impact all future federal funding for the department. We determined the department did not comply with several of these requirements.

Political Activity and Civil Rights

Federal regulations prohibit discrimination and the use of federal moneys for political activity. Department personnel stated every contract includes clauses which state no person shall be excluded from participation in any federally funded program because of race, color, national origin, age, or handicap; and no federal funds are to be used for political activity. We reviewed ten contracts to determine whether contracts did include clauses related to civil rights and political activity. Five contracts did not have the appropriate clauses. The source of funds and contract amounts are as follows:

FEDERAL SOURCE	Contract Amount
Fiscal Year 1992-93	
Mental Health - Human Resources Development (CFDA #93.226)	$5,000
Alcohol and Drug Abuse Division (CFDA #93.902)	2,000
Alcohol and Drug Abuse Division (CFDA #93.902)	4,900

Fiscal Year 1993-94	
Alcohol and Drug Abuse Division	
Data Grant (CFDA #93.179)	3,000
Mental Health - Data (CFDA #93.242)	1,800

Department personnel indicated they began implementing a standard form for service contracts in fiscal year 1993-94, and the two fiscal year 1993-94 contracts were overlooked.

Drug-Free Work Place

Federal regulations require all recipients of federal assistance to certify they will provide a drug-free work place. This is typically done through policy statements and notifying federal agencies when employees working on federal assistance programs are convicted of drug violations occurring in the work place.

The department has not communicated its current drug-free work place policy to all of its employees. One method to achieve this is posting the policy on bulletin boards. The department was not aware of the requirement to notify federal agencies of drug convictions. Currently, the department is notified of employees convicted on drug charges through news reports or word of mouth. The department handles disciplinary actions at that time.

Eligibility

The federal government publishes a list of entities or individuals who are not eligible to receive federal financial assistance (referred to by the federal government as debarments and suspensions). Federal regulations require agencies to subgrant or subcontract federal funds only to eligible entities and individuals. The department subgrants or subcontracts the majority of its federal funds.

In fiscal year 1993-94 the department started building a new veterans' home in Glendive. This project was funded with federal funds. The department bills the federal government while the Department of Administration's Architecture and Engineering Division (A&E) is responsible for the construction of the home. The department thought A&E would check for eligibility, but A&E did not. We reviewed the listing of subcontractors on the building project, and determined all parties are eligible to participate in the project. Since the department is responsible for the grant, department personnel

should ensure all contractors are eligible to participate in the project.

Department personnel stated they were not aware a list of ineligible parties existed until we brought it to their attention. The department has since obtained a copy of this list. The department should include an eligibility check in its contracting procedures.

Recommendation #10

We recommend the department establish procedures to ensure it complies with federal regulations regarding political activity, drug-free work place, and eligibility.

Resident Issues

The department provides a variety of services to a diverse group of people whose illnesses, disabilities, or offenses inhibit their full participation in society. These services include fiduciary responsibility to the residents living at its facilities. The department is responsible for establishing policies which ensure resident resources and belongings are safeguarded against theft, waste and abuse. The department is also responsible for treating residents equitably. We reviewed several aspects of the department's interaction with residents. We determined the department is not effectively discharging its fiduciary responsibilities in all cases. The following sections describe the issues and provide the department with suggested solutions.

Resident Personal Property

The department has policies which address safeguarding all residents' personal property. We determined the procedures used to monitor resident property do not adequately protect resident property.

The facilities are to have a personal property list for each resident which itemizes all the resident's property. We reviewed

residents' files for property lists and compared the lists to the items in the residents' rooms. We identified the following situations which indicate the facilities do not adequately safeguard resident property.

-- Items in the rooms were not recorded on the resident property list.

-- Residents' files did not contain property lists.

-- Property was not moved with the resident when the resident changed rooms.

-- Property list was not updated when property was destroyed.

The MSH policy regarding resident personal property requires a "Personal Effects Residents Assume Responsibility Form" be signed by all residents having personal property in their rooms. The form indicates the state is not responsible for personal items. The policy allows MSH staff to remove an item from the resident's room when it is not on the property list. We noted items on the property list that were not in the rooms. The residents assured us the items still existed, but were in storage. The property lists did not indicate the items had been moved. When MSH personnel place an item in storage, the state assumes responsibility for the item; therefore, having it listed on a form that says the state is not responsible is misleading.

MSH policy contends the state is not responsible for any lost or stolen item unless it is a necessity (e.g. dentures, eyeglasses, etc.). The department, however, has reimbursed several MSH residents for stolen property not considered necessities. Personnel indicated it is MSH's practice to reimburse the resident for property if it was stolen by staff. Current procedure contradicts formal policy. This contradiction confuses staff and increases the risk that residents are not treated equitably.

Personnel at the facilities indicated it is difficult to monitor residents' personal property. Reasons given include residents' personal property being a low priority, and staff not understanding the importance of tracking this property and enforcing the policies without infringing on residents' right to privacy. The department should revise its policies and procedures to

ensure it adequately safeguards residents' personal property without infringing on the residents' rights.

Recommendation #11

We recommend the department revise policies and procedures to ensure it adequately safeguards residents' personal property without infringing on residents' rights.

Internal Controls over Resident Accounts

The department is the custodian of cash accounts for the residents at all facilities except MCDC. The department receives money on behalf of the residents and disburses the money upon their requests. The department maintains, deposits and holds the residents' money in approved non-treasury bank accounts. It identifies each individual resident account on a Resident Account System (RAS) maintained at each facility. Maintaining accountability over resident accounts is part of the department's fiduciary responsibilities to the residents. We identified the following areas where the department should improve controls over resident accounts.

Resident Account System Reconciliation

MSP, MSH, and MDC use a computerized RAS to account for residents' cash accounts. This system maintains the individual account balances as well as a system total. Each facility's system total and the sum of the individual resident account balances should be the same. The sum of bank account balances for each facility should reconcile to its system total.

The sum of the individual accounts at MSP and MSH did not equal the respective system totals at June 30, 1993. The sum of MSP inmate accounts was $126 less than the system total and the amount of money in the checking account. The sum of MSH individual accounts exceeded the amount of money in the checking account by $383; the system total was out-of-balance with the individual accounts by $486.

Personnel stated they have received no guidance for reconciling the RAS to the bank accounts. Currently, each facility reconciles its bank statements to a different number from its RAS. The department could create a RAS procedures manual and include reconciliation procedures. The procedures could include information such as which amounts from the RAS should be reconciled to the bank accounts, which amounts within the RAS should be reconciled to each other, and how often the reconciliations should occur. The department should direct its reconciliation policies to all facilities, whether their RAS is computerized or manual.

Recommendation #12

We recommend the department develop a reconciliation process for the Resident Account System.

Safeguards over Individual Resident Accounts

A system of control should provide management with reasonable assurance that resources are safeguarded against waste, loss and misuse. We reviewed controls over the facilities' RAS and identified areas where management should take corrective action.

MSP has allowed inmates to overdraw their accounts even though its policy requires an inmate to have a balance sufficient to cover a requested disbursement.

There were 107 accounts with negative balances totaling $1,865 at June 30, 1993. This indicates personnel do not check account balances prior to disbursement of funds. When a disbursement causes an account to go negative, the inmate's purchase has actually been paid for with other inmates' moneys. We noted MSP used state funds to reimburse $900 of negative account balances during fiscal year 1992-93. The department should enforce compliance with its current policies and procedures.

We reviewed all the MSP RAS accounts in existence at June 30, 1993 and found 21 clearing accounts with balances prison staff could not attribute to specific inmates. The purpose of a clearing account is to provide accountability for moneys until they can be transferred to the appropriate account or remitted to the appropriate vendor. MSP personnel have not reconciled these accounts each month to ensure moneys were properly transferred. Clearing accounts with positive balances at June 30, 1993 totalled $12,330; accounts with negative balances totalled $17,087. Personnel indicated they are currently attempting to reconcile the accounts.

The department requires MSH staff to ensure the residents restrictively endorse checks and to write receipts for cash received from residents. We found that checks received by residents at MSH were not restrictively endorsed when the receipting process was performed by staff members who do not normally perform these duties. The department should provide training for all staff to ensure everyone is aware of endorsement and receipting requirements.

We reviewed SRCTC deposits from July 1, 1992 through March 15, 1994. We noted four instances where deposits were held for 10 to 14 days, and two instances where deposits in excess of $500 were held for 2 days or more. Section 17-6-105(6), MCA, requires agencies to deposit receipts daily when coin and currency exceeds $100, total receipts exceed $500 or at least weekly if the other conditions are not met. Personnel indicated it is difficult to schedule trips to Big Fork where their bank is located. SRCTC should investigate the feasibility of mailing its deposits. Another option would be to assign deposit responsibility to an employee who lives in Big Fork; the deposit could be made using a night depository and having validated bank receipts mailed back to SRCTC.

As the department addresses these issues, it should communicate policy and procedural changes to all of its facilities, not only at the facilities specifically cited, as the above issues are only examples of what we observed.

Recommendation #13

We recommend the department:

A. Establish procedures to ensure appropriate and accurate accountability within the Resident Account System.

B. Deposit receipts in accordance with state law.

Property Held in Trust

Section 17-1-102, MCA, requires state agencies to input, before the end of the fiscal year, all transactions necessary to present the receipt, use and disposition of all assets for which the agency is responsible in accordance with generally accepted accounting principles. This includes accounting records related to resident accounts. Department accounting personnel adjust cash and property held in trust in the Agency Fund at fiscal year-end to reflect assets held by the department on behalf of residents. The department's accounting records should reflect all resident moneys for which it has custodial responsibilities.

We noted the department incorrectly adjusted property held in trust balances for fiscal years 1992-93 and 1993-94. We identified similar errors in the property held in trust balances in our prior audit report. Each facility's property held in trust balance should equal, or be reconciled with, its RAS total.

We also noted several MVH residents have individual checking accounts not included in the RAS. MVH personnel control 28 of these accounts, at the request of residents, using the residents' checkbooks. Personnel prepare the checks, pay the residents' bills and reconcile each checking account. The checkbooks are kept in a locked file cabinet. The MVH superintendent has signature authority for 22 of these checking accounts, with balances totalling approximately $115,000 at June 30, 1994. None of these accounts are recorded as property held in trust on the department's accounting records.

MVH has placed itself in a trustee position by accepting authority to withdraw funds from residents' accounts. MVH should establish controls to ensure these accounts are safeguarded from loss. Currently, one person is responsible for deposits, withdrawals, and the account reconciliations. This increases the potential for undetected errors and irregularities. MVH personnel stated they had not considered the department to be acting in a trustee capacity because each individual has a separate bank account. The department should reflect its accountability by recording these assets on its accounting records.

Recommendation #14

We recommend the department establish procedures to ensure all facilities record the correct property held in trust balance on its accounting records as required by law.

Abandoned Property

In 1970, MSH residents sued MSH over care and maintenance charges. At that time the money in question was put in a trust fund. The lawsuit was resolved in 1986. According to MSH personnel, the court awarded $800 or the amount of care and maintenance charges, whichever was less, to each affected resident. The department was unable to locate three residents named in the lawsuit. According to state law, property held by a fiduciary, court, or public office for more than five years is presumed abandoned. The responsible party should turn this property over to the state Department of Revenue. In 1991, the bank holding the trust fund notified MSH that it considered the trust abandoned. In 1993, the Department of Revenue contacted MSH stating it had not yet received information concerning the abandoned trust. Department personnel turned the trust balance over to Department of Revenue after we brought it to their attention in April 1994.

Recommendation #15

We recommend the department properly dispose of abandoned property in accordance with state law.

Montana State Hospital Canteen

The MSH has a canteen operation located on hospital grounds. The canteen sells tobacco products, food, toiletries, and a variety of miscellaneous items to residents. Residents can purchase items directly from the canteen or request items to be delivered to them once a week. The canteen records annual sales of approximately $136,000.

We reviewed the canteen operations to determine whether controls were adequate to provide reasonable assurance resources are safeguarded against waste, loss and misuse. Specifically we reviewed purchasing procedures, inventory count procedures and sales procedures. At the time of our review, one employee was responsible for all aspects of the operation. The canteen manager ordered the goods, received the shipments, stocked shelves, took physical inventory and operated the cash register. These responsibilities placed the canteen manager in a position to be able to conceal waste, loss and theft. In addition, a lack of management review of canteen operations further increased the risk of undetected errors and irregularities.

We estimated revenue based on results of inventory counts and purchasing records. Our estimates were significantly different than the revenue recorded for fiscal years 1992-93 and 1993-94. We brought this to the attention of MSH and central office management. They took immediate steps to change procedures. These changes include:

-- Performing a physical inventory at the end of each month.

-- Keying merchandise sales into the cash register by product type.

-- Keeping records of damaged merchandise.

-- Monitoring the percentage markups.

-- Assigning another full-time employee to the canteen.

-- Monitoring the profit/loss information for the canteen.

We visited the MSH canteen to verify these procedural changes had taken place. We performed additional analytical tests and determined the variances between estimated and actual revenues were due to inaccurate inventory counts and inconsistent mark-ups on merchandise. Management has taken significant steps to improve controls. Other procedures MSH management should consider are:

-- Have someone independent of the canteen periodically perform inventory counts.

-- Follow up on shortages and overages to determine what caused the differences, specifically looking for trends.

Management should continue to monitor the canteen operation closely until it is under control, then provide an adequate level of review given the size and importance of the operation in relation to MSH as a whole.

Recommendation #16

We recommend the department continue to monitor the canteen operation and modify monitoring procedures as the situation warrants.

Rental Housing

The department's housing policy addresses housing provided to employees. It covers lease agreements, damage deposits, reduction of rental rates, free housing, and setting of rental rates. During the course of our audit work, we identified several instances where individual facility policies conflict with, or actual practices do not conform to, department policy.

Department policy requires a lease agreement and damage deposit for all housing units. We noted several rentals where there are no lease agreements or damage deposits collected from employees who are living rent free in department housing. Certain staff at SRCTC are offered a mobile home site where the department provides water and sewer hook-ups. Staff said there is no documented agreement between the department and these tenants.

Department policy provides a 20 percent rental rate discount for facility volunteer fire department members. The discounts provided by MSH are a 20 percent discount upon completion of written exams and a 50 percent discount after one year of participating membership.

To avoid misunderstandings and personnel conflicts, the department should enforce its official housing policy. This would eliminate inconsistencies between the department policy and policies at various facilities, and ensure signed lease agreements and damage deposits are collected from all renters.

Recommendation #17

We recommend the department enforce compliance with its housing policy.

Miscellaneous Revenue

Each facility receives a variety of miscellaneous revenues. The same revenue source does not necessarily receive consistent treatment from facility to facility. This may be a residual from when the facilities were separately administered agencies. We reviewed two of these miscellaneous revenues, telephone rebates and pop funds.

Telephone Rebates

MSH, MSP and SRCTC have pay phones available for use by the residents. U.S. West Communications pays the department a commission, or rebate, for allowing these telephones on state property. The rebate is a percentage of revenue from calls made from the pay phones. Annual collections are approximately $15,000 at MSH, $4,000 at SRCTC and $93,000 at MSP.

MSH deposits these collections in the state General Fund. However, MSP and SRCTC deposit their collections into inmate welfare accounts (Agency Fund) used for the benefit of residents. These accounts have financed purchases of satellite dishes and weight room equipment.

MSP and SRCTC inmates benefit directly from the telephone rebate collections, while MSH residents indirectly benefit because MSH is funded by the General Fund. Personnel indicated the state benefits when purchases are made from the inmate welfare accounts, because the state retains ownership of the purchased property. However, if the inmate welfare accounts are true agency funds, the property purchased belongs to the owner of the funds, not to the state.

Pop Funds

MSH, MDC, CFA, and MVH have pop machines at the facility for the residents and employees. The vendors pay a commission for allowing the machines at the facility. The following paragraphs describe how each facility handles this revenue.

-- MSH allows each ward to negotiate with the vendor. Each ward then deposits the commission money into a separate checking account in the local credit union. MSH management does not monitor the accounts. There are approximately 12 pop fund accounts at the local credit

union with October 1, 1994 balances ranging from $170 to $1,355.

-- MDC personnel, assisted by residents, fill the machines with pop, and collect the money from the machines. The money is deposited in the Special Revenue Fund account and is used for vocational rehabilitation of residents. There are no vendors involved.

-- CFA negotiates with the vendor and deposits the commission into a donation account in the Special Revenue Fund.

-- MVH negotiated with the vendor to reduce the price of the pop instead of receiving a commission.

MSP and SRCTC sell pop through their canteens. All canteen profits go into the inmate welfare accounts within the Agency Fund. MSH also has a canteen, but deposits the profits in the Special Revenue Fund.

Summary

The department should implement polices to provide direction as to how the facilities should account for these types of revenues. The department should consider whether the policies should result in treating residents consistently from facility to facility. If the department chooses different policies from facility to facility, the department should document the reasons behind its decision.

Recommendation #18

We recommend the department implement policies to provide direction to its facilities for accounting for miscellaneous revenues.

State Compliance

During our audit of the department, we tested compliance with state laws and regulations related to department operations. The following three sections discuss instances of noncompliance with state law.

Contracted Services

During our review of contracted services expenditures we noted a psychiatrist at MSH entered into a contract with the department beginning December 1, 1993. Immediately prior to that time the psychiatrist was a full-time employee on the department payroll. There was no lapse in time between this person's tenure as a state employee and contracting with the department. The psychiatrist's duties under the contract remained the same as those of psychiatrists who are state employees. In addition, while the psychiatrist was an employee, he was provided free housing. He did not move out of the house after entering into the contract. The contract did not address the housing issue.

Department personnel stated the employee wanted to become an independent contractor. By using the contractor classification the department eliminated the cost of paying benefits. State policy provides guidance for determining employer/employee relationships versus independent contractor relationships. After the contract was signed, several department personnel raised the issue of employee versus independent contractor. However, we saw no evidence that the department resolved the questions. Contracting these services potentially allows the department to exceed personal services budgets because contracted services are recorded under a different expenditure classification. The department should review the duties and requirements of the psychiatrist and compensate the psychiatrist appropriately.

Another concern with this contract is the department's apparent violation of section 2-2-201, MCA. This statute states a former employee may not contract with the state to provide services with which he/she was directly associated without a six month waiting period. The department should adhere to the requirements for establishing contracts with former employees as specified by state law.

Recommendation #19

We recommend the department:

A. Determine whether the contracted psychiatrist should be classified as a state employee and take appropriate measures to ensure compliance with compensation laws and policies.

B. Comply with state law regarding contracting with former employees.

Reporting Theft

Section 5-13-309(3), MCA, requires state agencies to report incidents of theft, or suspected theft, of state property under the agencies' control in writing, upon discovery, to both the state Attorney General and the Office of the Legislative Auditor. The statute covers property, including money, belonging to residents of the facilities where it has been entrusted directly to the facility or the facility staff has control over the property. The statute does not provide for a minimum dollar amount before the notification as described above is to take place. Department policy requires the property officer to notify the director's office in writing if non-expendable property having an aggregate value of $200 or more is stolen or assumed to be stolen and if state moneys or patient moneys are stolen or assumed to be stolen. The policy also directs staff at the central office to prepare reports for the Attorney General and the Legislative Auditor based on the information provided from the facilities.

We noted instances of theft or suspected theft of resident money and/or property at MSH, MVH, and MSP were not reported to the central office or reported to the Attorney General and the Legislative Auditor. In our prior audit report we recommended the department notify the Attorney General and the Legislative Auditor as required by law. The department concurred with our recommendation and stated in its response personnel would make

written notification of actual or suspected thefts of money or property directly or indirectly under their control.

Department staff indicated the policy was being revised. We believe the department's current policy conflicts with state law since the policy includes notification only above a certain dollar limit. Personnel at the facilities are not clear as to what procedures to follow for reporting actual or suspected thefts. The department should revise its policy to comply with state law. These policy revisions should address:

1. All property under the department's control; and
2. Procedures to ensure facilities report incidents of theft or suspected theft to the central office.

Recommendation #20

We recommend the department revise department policy regarding the reporting of theft of property and money to comply with section 5-13-309(3), MCA.

Advisory Council Compensation

Section 53-21-202, MCA, states "The department shall . . . appoint an advisory council to make recommendations to the department regarding services for emotionally disturbed children. The members of the advisory council shall serve without compensation . . ." The department established the Mental Health Advisory Council on Youth as required by this law.

The department has paid an honorarium of $25 per day to each member who requested it. The council met twice during fiscal year 1993-94 and members received honoraria totalling $150. The advisory council members are not entitled to receive these honoraria.

Personnel indicated it is difficult to get members to serve on councils. If the department believes compensation is

appropriate, the department should seek legislation to provide payments of honaria to advisory council members.

Recommendation #21

We recommend the department discontinue payments of honoraria to the Montana Mental Health Advisory Council on Youth, or seek legislation to authorize paying council members.

Independent Auditor's Report & Agency Financial Schedules

STATE OF MONTANA

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INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying financial schedules of the Department of Corrections and Human Services for each of the two fiscal years ended June 30, 1993 and 1994, as shown on pages A-5 through A-14. The information contained in these financial schedules is the responsibility of the department's management. Our responsibility is to express an opinion on these financial schedules based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 1, the financial schedules are presented on a comprehensive basis of accounting other than generally accepted accounting principles. The schedules are not intended to be a complete presentation and disclosure of the department's assets, liabilities and cash flows.

In our opinion, the financial schedules referred to above present fairly, in all material respects, the results of operations and changes in fund balances of the Department of Corrections and Human Services for the two fiscal years ended June 30, 1993 and 1994, in conformity with the basis of accounting described in note 1.

Respectfully submitted,

James Gillett

James Gillett, CPA
Deputy Legislative Auditor

September 30, 1994

DEPARTMENT OF CORRECTIONS & HUMAN SERVICES
SCHEDULE OF CHANGES IN FUND BALANCES
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1994

	General Fund	Special Revenue Funds	Enterprise Funds	Internal Service Funds
FUND BALANCE: July 1, 1992	$ 0	$ 500,777	$7,630,435	$ 57,003
ADDITIONS:				
Fiscal Year 1992-93				
Budgeted Revenue & Transfers In	14,628,634	8,149,362	2,827,365	277,597
Nonbudgeted Revenue & Transfers In	110,870	465		
Prior Year Revenue Adjustments	356,304			
Prior Year Expenditure Adjustments	536,542	61,700	820	561
Support From State of Montana	64,152,859			
Cash Transfers In		3,451,162		
Direct Entries to Fund Balance		6,628		
Fiscal Year 1993-94				
Budgeted Revenue & Transfers In	15,497,058	10,298,299	3,600,845	338,168
Nonbudgeted Revenue & Transfers In	90,128	39,686	4,031	
Prior Year Revenue Adjustments	941,540	57,725	79	
Prior Year Expenditure Adjustments	89,898		512	
Support From State of Montana	61,248,118			
Cash Transfers In		3,706,569		
Direct Entries to Fund Balance		36,319		
Total Additions	157,651,951	25,807,915	6,433,652	616,326
REDUCTIONS:				
Fiscal Year 1992-93				
Budgeted Expenditures & Transfers Out	79,086,093	11,437,833	3,199,164	268,559
Prior Year Expenditures	5,104	14		
Direct Entries to Fund Balance	668,874		6,285	
Prior Year Revenue Adjustments	25,138	52,194		
Nonbudgeted Expenditures & Transfers Out			(1,024,860) [1]	16,111
Non-Budgeted Py Expenditure Adjustments			(1,060)	
Fiscal Year 1993-94				
Budgeted Expenditures & Transfers Out	77,776,508	13,215,580	3,529,768	307,286
Direct Entries to Fund Balance	90,234			
Prior Year Expenditure Adjustments		42,249		83
Nonbudgeted Expenditures & Transfers Out			8,940	(42,018)
Cash Transfers Out			59,280	
Nonbudgeted Prior Year Expenditure Adjustments			(9,856)	
Prior Year Revenue Adjustments				515
Total Reductions	157,651,951	24,747,870	5,767,661	550,536
FUND BALANCE: June 30, 1994	$ 0	$ 1,560,822	$8,296,426	$122,793

[1] The majority of non-budgeted expenditure activity in fiscal year 1992-93 relates to changes in livestock inventory on the Montana State Prision ranch.

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules beginning on page A-10.

DEPARTMENT OF CORRECTIONS & HUMAN SERVICES
SCHEDULE OF BUDGETED REVENUE & TRANSFERS IN - ESTIMATE & ACTUAL
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1994

	Charges For Services	Sale of Documents & Merchandise	Rentals, Leases & Royalties	Miscellaneous	Federal	Grants, Contracts & Donations	Other Financing Sources	Total
Fiscal Year 1992-93								
GENERAL FUND								
Estimated Revenue	$14,982,083	$ 2,800	$ 88,165	$35,400	$ 25,000			$15,133,448
Actual Revenue	14,491,187	2,415	104,636	30,396	0			14,628,634
Collections Over (Under) Estimate	$ (490,896)	$ (385)	$ 16,471	$(5,004)	$ (25,000)			$ (504,814)
SPECIAL REVENUE FUND								
Estimated Revenue	$ 2,286,609	$1,455,626	$ 750	$25,000	$6,009,321	$ 30,412	$ 5,450	$ 9,813,168
Actual Revenue	1,394,704	902,163	0	20,500	5,804,487	23,291	4,217	8,149,362
Collections Over (Under) Estimate	$ (891,905)	$ (553,463)	$ (750)	$(4,500)	$ (204,834)	$ (7,121)	$(1,233)	$(1,663,806)
ENTERPRISE FUNDS								
Estimated Revenue	$ 7,000	$2,874,361		$ 6,240				$ 2,887,601
Actual Revenue	5,958	2,819,903		1,504				2,827,365
Collections Over (Under) Estimate	$ (1,042)	$ (54,458)		$(4,736)				$ (60,236)
INTERNAL SERVICE FUND								
Estimated Revenue		270,614						270,614
Actual Revenue		277,597						277,597
Collections Over (Under) Estimate		6,983						6,983
Fiscal Year 1993-94								
GENERAL FUND								
Estimated Revenue	$15,657,176	$ 2,700	$ 72,200	$ 38,500	$ 5,000			$15,775,576
Actual Revenue	15,416,433	1,919	61,451	17,255	0			15,497,058
Collections Over (Under) Estimate	$ (240,743)	$ (781)	$(10,749)	$(21,245)	$ (5,000)			$ (278,518)
SPECIAL REVENUE FUND								
Estimated Revenue	$ 1,657,900	$1,011,100	$ 60,500		$8,565,986	$ 37,750	$5,000	$11,338,236
Actual Revenue	1,568,384	955,378	13,780		7,731,834	23,778	5,145	10,298,299
Collections Over (Under) Estimate	$ (89,516)	$ (55,722)	$(46,720)		$ (834,152)	$(13,972)	$ 145	$(1,039,937)
ENTERPRISE FUNDS								
Estimated Revenue		$3,750,000		$ 4,800				$ 3,754,800
Actual Revenue		3,599,153		1,692				3,600,845
Collections Over (Under) Estimate		$ (150,847)		$ (3,108)				$ (153,955)
INTERNAL SERVICE FUNDS								
Estimated Revenue	$ 120,000	$ 350,000						$ 470,000
Actual Revenue	94,438	243,730						338,168
Collections Over (Under) Estimate	$ (25,562)	$ (106,270)						$ (131,832)

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules beginning on page A-10.

DEPARTMENT OF CORRECTIONS & HUMAN SERVICES
SCHEDULE OF BUDGETED PROGRAM EXPENDITURES AND TRANSFERS OUT BY OBJECT & FUND - BUDGET & ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 1994

	Central Operations	Corrections	Mental Health	Chemical Dependency	Special Services[1]	Total
PERSONAL SERVICES						
Salaries	$1,178,437	$14,479,305	$14,541,334	$1,345,627	$10,732,197	$42,276,900
Hourly Wages		589,258				589,258
Other Compensation	13,650					13,650
Employee Benefits	316,837	4,968,208	6,448,089	506,007	4,934,552	17,173,693
Total	1,508,924	20,036,771	20,989,423	1,851,634	15,666,749	60,053,501
OPERATING EXPENSES						
Other Services	649,562	4,573,706	965,306	650,541	503,405	7,342,520
Supplies & Materials	52,389	3,734,353	1,546,773	101,499	1,325,476	6,760,490
Communications	60,625	277,223	164,419	40,587	60,743	603,597
Travel	27,403	137,139	44,837	50,444	12,590	272,413
Rent	80,047	243,391	32,811	280,409	22,449	659,107
Utilities		602,022	583,660	287	442,357	1,628,326
Repair & Maintenance	63,568	561,934	285,966	6,479	141,366	1,059,313
Other Expenses	35,244	246,246	176,574	20,909	91,765	570,738
Goods Purchased For Resale		1,571,953	137,923		47,431	1,757,307
Total	968,838	11,947,967	3,938,269	1,151,155	2,647,582	20,653,811
EQUIPMENT AND INTANGIBLE ASSETS						
Equipment	6,324	742,582	189,946	46,602	131,305	1,116,759
Livestock		41,259				41,259
Intangible Assets	87	219,657				219,744
Total	6,411	1,003,498	189,946	46,602	131,305	1,377,762
CAPITAL OUTLAY						
Buildings		31,520				31,520
Other Improvements		29,037				29,037
Total		60,557				60,557
LOCAL ASSISTANCE						
From State Sources				999,984		999,984
Total				999,984		999,984
GRANTS						
From State Sources		20,946	7,447,963			7,468,909
From Federal Sources			1,330,073	2,636,901		3,966,974
Total		20,946	8,778,036	2,636,901		11,435,883
TRANSFERS						
Accounting Entity Transfers					100,000	100,000
Nonmandatory Transfers			82,280			82,280
Total			82,280		100,000	182,280
DEBT SERVICE						
Leases	60,683	3,288	906	487		65,364
Total	60,683	3,288	906	487		65,364
TOTAL PROGRAM EXPENDITURES	$2,544,856	$33,073,027	$33,978,860	$6,686,763	$18,545,636	$94,829,142
GENERAL FUND						
Budgeted	$2,547,608	$28,200,452	$32,771,035		$15,404,047	$78,923,142
Actual	2,478,244	27,840,416	32,149,559		15,308,289	77,776,508
Unspent Budget Authority	$ 69,364	$ 360,036	$ 621,476		$ 95,758	$ 1,146,634
SPECIAL REVENUE FUND						
Budgeted	$ 39,202	$ 1,718,998	$ 2,526,145	$7,148,631	$ 3,378,739	$14,811,715
Actual	39,202	1,422,967	1,829,301	6,686,763	3,237,347	13,215,580
Unspent Budget Authority	$ 0	$ 296,031	$ 696,844	$ 461,868	$ 141,392	$ 1,596,135
ENTERPRISE FUNDS						
Budgeted	$ 25,130	$ 4,489,374				$ 4,514,504
Actual	25,130	3,504,638				3,529,768
Unspent Budget Authority	$ 0	$ 984,736				$ 984,736
INTERNAL SERVICE FUNDS						
Budgeted	$ 2,280	$ 446,381				$ 448,661
Actual	2,280	305,006				307,286
Unspent Budget Authority	$ 0	$ 141,375				$ 141,375

[1] See note 6 on page A-13.

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules beginning on page A-10.

DEPARTMENT OF CORRECTIONS & HUMAN SERVICES
SCHEDULE OF BUDGETED PROGRAM EXPENDITURES BY OBJECT & FUND - BUDGET & ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 1993

	Central Operations	Corrections Systems	Mental Health System	Chemical Dependency System	Developmental Disability Systems	Veterans' Nursing Home Program	Total
PERSONAL SERVICES							
Salaries	$1,107,836	$15,089,751	$16,624,660	$1,424,647	$ 9,037,470	$1,610,308	$44,894,672
Hourly Wages		569,796					569,796
Other Compensation	15,100						15,100
Employee Benefits	257,803	4,592,622	6,747,728	550,861	3,886,780	680,637	16,716,431
Total	1,380,739	20,252,169	23,372,388	1,975,508	12,924,250	2,290,945	62,195,999
OPERATING EXPENSES							
Other Services	83,784	4,725,971	2,006,920	264,409	344,388	220,811	7,646,283
Supplies & Materials	26,963	3,531,613	1,837,171	108,456	873,597	324,242	6,702,042
Communications	51,303	249,082	168,476	32,234	46,994	8,613	556,702
Travel	17,237	127,093	50,298	46,141	5,651	1,848	248,268
Rent	39,826	249,708	39,313	16,630	13,160	2,889	361,526
Utilities		618,721	731,845	69,752	376,045	86,488	1,882,851
Repair & Maintenance	42,746	523,743	293,139	13,678	79,703	22,930	975,939
Other Expenses	8,088	256,847	221,370	29,703	12,790	17,077	545,875
Goods Purchased For Resale		1,368,305	135,965		26,938	20,057	1,551,265
Total	269,947	11,651,083	5,484,497	581,003	1,779,266	704,955	20,470,751
EQUIPMENT AND INTANGIBLE ASSETS							
Equipment	5,545	281,359	86,469	21,752	90,466	5,134	490,725
Livestock		24,600					24,600
Intangible Assets		1,946		1,344			3,290
Total	5,545	307,905	86,469	23,096	90,466	5,134	518,615
CAPITAL OUTLAY							
Buildings		44,285					44,285
Other Improvements		49,082					49,082
Total		93,367					93,367
LOCAL ASSISTANCE							
From State Sources				1,250,000			1,250,000
Total				1,250,000			1,250,000
GRANTS							
From State Sources		20,110	4,919,219	71,025			5,010,354
From Federal Sources			1,436,786	2,326,459			3,763,245
Total		20,110	6,356,005	2,397,484			8,773,599
DEBT SERVICE							
Leases	348,796	7,456	2,241	2,389	328,436		689,318
Total	348,796	7,456	2,241	2,389	328,436		689,318
TOTAL PROGRAM EXPENDITURES	$2,005,027	$32,332,090	$35,301,600	$6,229,480	$15,122,418	$3,001,034	$93,991,649
GENERAL FUND							
Budgeted	$2,074,015	$28,081,221	$33,193,055	$ 535,454	$15,126,525	$ 798,164	$79,808,434
Actual	2,005,027	27,616,945	33,159,523	470,102	15,081,094	753,402	79,086,093
Unspent Budget Authority	$ 68,988	$ 464,276	$ 33,532	$ 65,352	$ 45,431	$ 44,762	$ 722,341
SPECIAL REVENUE FUND							
Budgeted		$ 1,878,430	$ 2,685,556	$6,539,605	$ 53,800	$2,249,596	$13,406,987
Actual		1,247,422	2,142,077	5,759,378	41,324	2,247,632	11,437,833
Unspent Budget Authority		$ 631,008	$ 543,479	$ 780,227	$ 12,476	$ 1,964	$ 1,969,154
ENTERPRISE FUNDS							
Budgeted		$ 3,442,975					$ 3,442,975
Actual		3,199,164					3,199,164
Unspent Budget Authority		$ 243,811					$ 243,811
INTERNAL SERVICE FUNDS							
Budgeted		$ 290,614					$ 290,614
Actual		268,559					268,559
Unspent Budget Authority		$ 22,055					$ 22,055

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules beginning on page A-10.

DEPARTMENT OF CORRECTIONS & HUMAN SERVICES
SCHEDULE OF ADDITIONS AND DEDUCTIONS TO
AGENCY FUND PROPERTY HELD IN TRUST
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1994

	CENTRAL OFFICE	MONTANA DEVELOPMENTAL CENTER	CENTER FOR THE AGED	EASTMONT HUMAN SERVICES CENTER	MONTANA STATE PRISON	SWAN RIVER CORRECTIONAL TREATMENT CENTER	MONTANA VETERANS' HOME	MONTANA STATE HOSPITAL	MONTANA CHEMICAL DEPENDENCY CENTER	TOTALS
Property Held in Trust Balance at July 1, 1992	$ 20,535	$ 89,675	$ 158,562	$ 41,643	$ 178,963	$ 9,235	$ 87,134	$ 88,454		$ 674,201
ADDITIONS:										
Fiscal Year 1992-93										
To Facility's Inmate/Patient/Resident Accounts:		345,211	568,263	202,797	1,497,335	71,580	301,146	473,565		3,459,897
Billings Life Skills Center	72,814									72,814
Missoula Life Skills Center	180,729									180,729
Housing Deposits and Self-Pay Insurance								24,588		24,588
Fiscal Year 1993-94										
To Facility's Inmate/Patient/Resident Accounts:		408,980	552,686	244,921	1,628,304	33,763	445,978	404,226	$ 6,391	3,725,249
Women's Correctional Center[1]	3,073							(3,073)		
Billings Life Skills Center[2]										
Missoula Life Skills Center[2]										
Housing Deposits and Self-Pay Insurance								22,726		22,726
TOTAL ADDITIONS	256,616	754,191	1,120,949	447,718	3,125,639	105,343	747,124	922,032	6,391	7,486,003
DEDUCTIONS:										
Fiscal Year 1992-93										
To Facility's Inmate/Patient/Resident Accounts:		(351,445)	(608,041)	(215,843)	(1,470,135)	(80,367)	(285,234)	(488,156)		(3,499,221)
Women's Correctional Center[1]	(453)							453		
Billings Life Skills Center	(75,711)									(75,711)
Missoula Life Skills Center	(181,711)									(181,711)
Housing Deposits and Self-Pay Insurance								(23,839)		(23,839)
Fiscal Year 1993-94										
To Facility's Inmate/Patient/Resident Accounts:		(411,962)	(569,039)	(237,484)	(1,601,085)	(29,275)	(404,610)	(409,400)	(3,041)	(3,665,896)
Billings Life Skills Center[2]	(7,756)									(7,756)
Missoula Life Skills Center[2]	(6,345)									(6,345)
Housing Deposits and Self-Pay Insurance								(24,377)		(24,377)
TOTAL DEDUCTIONS	(271,976)	(763,407)	(1,177,080)	(453,327)	(3,071,220)	(109,642)	(689,844)	(945,319)	(3,041)	(7,484,856)
Property Held in Trust Balance at June 30, 1994	$ 5,175	$ 80,459	$ 102,431	$ 36,034	$ 233,382	$ 4,936	$ 144,414	$ 65,167	$ 3,350	$ 675,348

[1] Additions and deductions for the Women's Correctional Center are included in the additions and deductions for Montana State Hospital in both fiscal years. The Women's Correctional Center account balances are recorded on the department's Central Office accounting records. This adjustment represents the net increase or decrease in Women's Correctional Center account balances for the fiscal year and the relationship of accountability for this activity.
[2] The Billings and Missoula Life Skills Centers were privatized in fiscal year 1993-94.

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules beginning on page A-10.

1. Summary of Significant Accounting Policies

Basis of Accounting

The department uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental and Agency Funds. In applying the modified accrual basis, the department records:

> Revenues when it receives cash or when receipts are measurable and available to pay current period liabilities.
>
> Expenditures for valid obligations when the department incurs the related liability and it is measurable.
>
> State accounting policy also requires the department to record the cost of employees' annual leave and sick leave when used or paid.

The department uses the accrual basis of accounting for Proprietary Funds. Under the accrual basis, as defined by state accounting policy, the department records revenues in the accounting period earned, if measurable, and records expenses in the period incurred, if measurable.

Expenditures and expenses may include entire budgeted service contracts even though the department received the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

Basis of Presentation

The financial schedule format is in accordance with the policy of the Legislative Audit Committee. Except for the Schedule of Additions and Deletions to Agency Fund Property Held in Trust, the financial schedules are prepared from the Statewide Budgeting and Accounting System without adjustment. The Schedule of Additions and Deletions to Agency Fund Property Held in Trust was prepared from records maintained at the

department's facilities and the Statewide Budgeting and Accounting System. Accounts are organized in funds according to state law. The department uses the following funds:

Governmental Funds

General Fund - to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Fund - to account for proceeds of specific revenue sources legally restricted to expenditures for specific purposes. Department Special Revenue Funds include federal assistance, Veterans' Administration reimbursement, cigarette tax and related expenditures for veterans' care, canteen activity, and donations.

Proprietary Funds

Internal Service Fund - to account for providing goods or services to other agencies or departments on a cost-reimbursement basis. The department Internal Service Fund is the Montana State Prison Industries Training Program.

Enterprise Fund - to account for operations (a) financed and operated in a manner similar to private business enterprises, where the legislature intends that the department finance or recover costs primarily through user charges; or (b) where the legislature has decided that periodic determination of revenues earned, expenses incurred or net income is appropriate. Department Enterprise Funds include the ranch and institutional industries programs at the Montana State Prison, the industries program at the Women's Correctional Center, and the vocational training program at Swan River Correctional Training Center.

Fiduciary Funds

Trust and Agency Funds - to account for assets held by the state in a trustee capacity or as an agent for individuals, private organizations, other governments or other funds. Department fiduciary funds include moneys belonging to residents of facilities and damage deposits for department housing.

2. Annual and Sick Leave

Employees at the department accumulate both annual and sick leave. The department pays employees for 100 percent of unused annual and 25 percent of unused sick leave credits upon termination. Accumulated unpaid liabilities for annual and sick leave are not reflected in the accompanying financial schedules. In the Proprietary Funds, the increase in annual and 25 percent of the increase in sick leave are recognized as non-budgeted expenses when the related liability is recorded at year-end. The department absorbs expenditures for termination pay in its annual operational costs. At June 30, 1994, the department had a liability of $4,701,516 and $95,519 in the General Long-Term Debt Account Group and Proprietary Funds, respectively.

3. Pension Plan

Employees are covered by the Montana Public Employees' Retirement System or the Teachers' Retirement System. The department's contribution to these systems was $2,864,644 in Governmental Funds and $47,439 in Proprietary Funds in fiscal year 1992-93 and $3,458,969 in Governmental Funds and $48,586 in Proprietary Funds in fiscal year 1993-94.

4. General Fund Balance

The General Fund is a statewide fund. Agencies do not have a separate General Fund since their only authority is to pay obligations from the statewide General Fund within their appropriation limits. Thus, on an agency's schedules, the General Fund beginning and ending fund balance will always be zero.

5. Cash Transfer

Cash transfers are the net of cash transfers in and cash transfers out. In fiscal years 1992-93 and 1993-94, the department received cash transfers in of $3,451,162 and $5,120,759, respectively, in the Special Revenue Fund. The majority of these transfers represent earmarked alcohol tax money used for treatment of alcoholism. Beginning fiscal year 1993-94, the department also began receiving cigarette tax revenue used to fund the operation of the Montana Veterans' Home in Columbia Falls. Both the alcohol tax and the cigarette tax are collected by the Department of Revenue.

The department had $1,414,191 of cash transfers out to the Department of Administration, Architecture and Engineering Division in fiscal year 1993-94, for costs associated with the construction of the Eastern Montana Veterans' Home in Glendive.

6. Program Changes

Beginning in fiscal year 1993-94 the department consolidated the Developmental Disabilities and the Veterans' Nursing Home program into a new Special Services program.

7. Galen Campus Agreement

The 1993 Legislature directed the department to discontinue the treatment programs at the Galen Campus of the Montana State Hospital. The department's 1995 biennial appropriations included $100,000 each year to be spent on the maintenance of the Galen Campus.

In January, 1994, the department entered into an agreement with Anaconda-Deer Lodge County (county) which turned control of the Galen Campus over to the county until June 30, 1995. The county is charged with maintaining the appearance and utility of the facilities and seeking alternative uses for the campus to include soliciting tenants and promoting suitable and beneficial uses for any and all unused facilities.

Under the terms of the agreement the department agreed to transfer the balance of the unexpended maintenance appropriation for fiscal year 1993-94 and all of the appropriation for fiscal year 1994-95 to the county, forgive a previously incurred county debt of $56,678, allow the county to keep all rental income receipts for tenants renting facilities on the Galen Campus, maintain liability coverage on the campus facilities, assist the county with repairs in excess of $7,500, complete roofing repairs and heating system upgrades to individual residential units as planned and approved by the 1993 Legislature, and provide daily security patrols of the campus.

8. Subsequent Events

Chapter 819, Laws of 1991, authorized the department to enter into a loan agreement with the Montana Health Facility Authority for the purpose of financing the costs of acquiring, constructing, and equipping facilities for the Montana Developmental Center in Boulder.

In August of 1994 the Montana Health Facility Authority issued $13,100,000 in health care revenue bonds for the Montana Developmental Center project. The payments will be made solely from facility revenues obtained by the department from the ownership and operation of the Montana Developmental Center.

Agency Response

DEPARTMENT OF CORRECTIONS AND HUMAN SERVICES

MARC RACICOT, GOVERNOR

1539 11TH AVENUE

STATE OF MONTANA

(406) 444-3930
FAX: (406) 444-4920

PO BOX 201301
HELENA, MONTANA 59620-1301

March 16, 1995

RE: Responses to Legislative Audit Recommendations

RECEIVED
MAR 17 1995
LEGISLATIVE AUDITOR

Mr. Scott Seacat
Legislative Auditor
Office of the Legislative Auditor
Capitol Station
Helena, MT 59620

Dear Mr. Seacat:

Attached are the Department's official responses to the Legislative Audit Recommendations contained in your report. The agency has given serious consideration to each of your recommendations, and our reply reflects the cooperative spirit between our agencies which was evident during the audit.

I appreciate the professionalism exhibited by your staff while working on this audit, and I look forward to continued cooperation.

Sincerely,

Rick Day

RICK DAY
Director

RD:lp

Attachment

DEPARTMENT OF CORRECTIONS AND HUMAN SERVICES
AUDIT RECOMMENDATION RESPONSE

Recommendation #1:

We recommend the department establish procedures to ensure:

A. The MSH interim daily rate is properly calculated and submitted to the central office in a timely manner.

B. All allowable direct services provided are billed to the extent possible.

Response:

Concur. Montana State Hospital (MSH) will take the necessary action to ensure that the proper amount of salaries and associated benefits of psychiatrists, physicians, social workers, psychologists, and occupational therapists are included in the per diem rate base. Future submissions of calculated rates will be done in a timely manner. Additionally, the department will develop and implement procedures whereby all eligible services will be submitted in a timely manner for appropriate billing.

Recommendation #2:

We recommend the department:

A. Ensure building information, including building content, use and square footage, is accurately reported to the Department of Administration, Risk Management and Tort Defense Division.

B. Work with the Department of Administration to ensure insurance coverage on buildings is reasonable and necessary.

Response:

Concur. As a part of its annual Source Data Reporting, the department will ensure that insurance coverage on buildings is accurate, reasonable, and necessary.

Recommendation #3:

We recommend the department continue its efforts to assign individual property numbers to fixed assets as required by state accounting policy.

Response:

Concur.

Recommendation #4:

We recommend the department charge personal services costs based on actual time and effort spent on federal assistance programs.

Response:

Concur. On April 7, 1994, a memorandum was issued to federal grant administrators within the department outlining procedures which will ensure compliance with OMB Circular A-87 regarding personal services charges to federal assistance programs.

Recommendation #5:

We recommend the department establish controls to ensure it spends the ADMS block grant as required by law.

Response:

Concur. As evidenced by the audit, the only control which was deficient was the time and effort reporting issue. With the implementation of recommendation #4, the department believes that proper controls are now present on grant expenditures to ensure compliance with law.

Recommendation #6:

We recommend the department:

A. Comply with the federal requirements related to ESEA Chapter 1.

B. Work with the Office of Public Instruction to ensure MDC resolves the questioned costs for the 1992-93 ESEA Chapter 1 award.

Response:

Concur. The department has returned the funds in question to OPI on February 28, 1995, and will not renew the Chapter 1 grant at the Montana Developmental Center in the future because the client pool which meets grant requirements is not large enough to cover administration costs of the grant.

Recommendation #7:

We recommend the department apply indirect cost rates in accordance with federal regulations.

Response:

Concur. As stated in the audit report, beginning in FY94 the department applied the correct indirect cost rate and will use the correct rate in the future.

Recommendation #8:

We recommend the department implement procedures to ensure administrative costs are recovered to the fullest extent possible.

Response:

Concur. The department has requested in HB 2, the General Appropriations Act for FY96-FY97, an increase in administrative costs associated with ADMS block grant activity and intends to recover all significant administrative costs of this activity in the future. However, the department also wishes to retain its flexibility to provide direct services with these funds whenever possible.

Recommendation #9:

We recommend the department comply with federal regulations regarding SSA and SSI.

Response:

Concur. The department received a written waiver for the questioned $30 on February 17, 1995. The $468 in question was returned to the federal government on May 17, 1994. As part of the notification of death to the Social Security Administration in the future, the Montana Developmental Center will request either an approved Waiver of Repayment or a Request for Repayment to allow use of monies received after death or to have adequate documentation for return of money received.

Recommendation #10:

We recommend the department establish procedures to ensure it complies with federal regulations regarding political activity, drug-free work place, and eligibility.

Response:

Concur. The department has standardized and centralized its contracting process in FY94. Federal contracts now include political activity and civil rights clauses in the body of each agreement. Also, the federal regulations regarding drug-free work place notification are currently being incorporated into an updated policy manual to be distributed throughout the agency. Compliance with this policy will be monitored by the Personnel Bureau of the department. Finally, the Contracts Officer for DCHS now ensures that parties receiving federal funds have not been suspended or debarred prior to the start of the contract.

Recommendation #11:

We recommend the department revise policies and procedures to ensure it adequately safeguards residents' personal property without infringing on residents' rights.

Response:

Concur. The department will review its policies and procedures regarding resident property and revise it as necessary. Steps will be taken to ensure that staff are aware of and understand these policies.

Recommendation #12:

We recommend the department develop a reconciliation process for the Resident Account System.

Response:

Concur. The department will develop an ad-hoc committee of representatives from each of the facilities utilizing the Resident Account System (RAS), as well as staff from Information Services Bureau and Management Services, to develop a procedures manual for the RAS, including reconciliation procedures. The manual will then be updated as necessary.

Recommendation #13:

We recommend the department:

A. Establish procedures to ensure appropriate and accurate accountability within the Resident Account System.

B. Deposit receipts in accordance with state law.

Response:

Concur. As a part of the RAS procedures manual described in the response to recommendation #12, these issues will be specifically addressed to ensure compliance with department policy and state law.

Recommendation #14:

We recommend the department establish procedures to ensure all facilities record the correct property held in trust balance on its accounting records as required by law.

Response:

Concur. Management Services will issue a memorandum in May of each year outlining the procedures required to ensure that the correct property held in trust balance is recorded on each facility's accounting records at fiscal year end.

Recommendation #15:

We recommend the department properly dispose of abandoned property in accordance with state law.

Response:

Concur. The funds in question were turned over to the Department of Revenue on April 25, 1994. Additionally, each facility will have an individual responsible for reviewing its RAS on a systematic basis to ensure that the department is not holding funds which would be considered abandoned.

Recommendation #16:

We recommend the department continue to monitor the canteen operation and modify monitoring procedures as the situation warrants.

Response:

Concur. Montana State Hospital management will continue to monitor the canteen operation on an ongoing basis. In a recent inventory, personnel separate from the canteen operation assisted in the inventory count in order to add validity to the process and to determine efficiencies to be gained in future inventory procedures.

Recommendation #17:

We recommend the department enforce compliance with its housing policy.

Response:

Concur. The department will intensify its efforts to ensure each facility complies with departmental housing policy.

Recommendation #18:

We recommend the department implement policies to provide direction to its facilities for accounting for miscellaneous revenues.

Response:

Concur. The department will develop and implement a policy for accounting for miscellaneous revenues that reflects the different needs of the individuals living at each institution.

Recommendation #19:

We recommend the department:

A. Determine whether the contracted psychiatrist should be classified as a state employee and take appropriate measures to ensure compliance with compensation laws and policies.

B. Comply with state law regarding contracting with former employees.

Response:

Concur. The department will intensify its efforts to ensure compliance both with compensation laws and policies and state law regarding contracting with former employees.

Recommendation #20:

We recommend the department revise department policy regarding the reporting of theft of property and money to comply with section 5-13-309(3), MCA.

Response:

Concur. The department has requested the assistance of the Office of the Legislative Auditor in the development of a process for periodic submission of suspected theft reports.

Recommendation #21:

We recommend the department discontinue payments of honoraria to the Montana Mental Health Advisory Council on Youth, or seek legislation to authorize paying council members.

Response:

Concur.